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UTILITIES INDUSTRY OPPORTUNITY ANALYSIS

INPUT®

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Preface:

Important Note to Readers of this Report

Readers of this report should be aware that this is only one of thirteen vertical industry reports developed by INPUT for Moore IDS. These vertical reports, in turn, are followed by a final cross-industry report that serves the central mission of this project: to provide market opportunity recommendations that will help Moore IDS to focus strategically on a very limited number of high-value opportunities—whether within a single industry or across several.

Therefore, readers of this report should keep in mind several considerations while reviewing the findings presented here:

- To serve the central mission of helping Moore IDS to achieve strategic focus on a limited number of market opportunities, INPUT has applied a tight screening process to the applications examined in each vertical industry. The selection criteria targeted mission-critical, high frequency, repetitive variable-imaging applications that would represent an ongoing base of predictable revenue, as opposed to the current mix of ad hoc, project-oriented overflow work with peaks and valleys of a less predictable nature.

- Due to this tight screening process, readers may find that these vertical reports fail to mention certain applications, even though they represent currently viable Moore IDS revenue sources.

- Finally, recommendations presented in this single-industry report must be recognized by readers to be somewhat out of context:

- An opportunity that looks excellent—relatively—within a single industry may turn out to be dwarfed by applications in other industries.

- An application that looks to be of minimal attractiveness in a single industry may prove to be closely paralleled in several other industries—in such a way that together they constitute a preeminent cross-industry opportunity.

INPUT discusses such findings in the cross-industry report. Note that these cross-industry recommendations are the primary objective of this project, and thus they supersede those of the individual vertical market reports. The final cross-industry report should be examined for such perspective by any reader of this single-industry report.

It is hoped that this note will help readers place these findings in the proper perspective, especially in cross-referencing this single-industry viewpoint with the final report's cross-industry findings and recommendations.

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I

Introduction

A

Objectives

INPUT has conducted this research to meet objectives agreed upon with Moore Business Forms' Information Distribution Services division (Moore IDS). These objectives are outlined in Exhibits I-1 and I-1a.

The utilities industry was identified as an abbreviated market compared to other vertical markets, such as insurance. As will be shown, this secondary prioritization was justified. There appear to be fewer promising opportunities in the market, based on INPUT's investigation.

In this study, basic as well as enhanced services opportunities were examined, as previously defined in other vertical market reports.

EXHIBIT I-1

Utilities:
Key Research Objectives

- Identify and evaluate business opportunities for basic and enhanced services
- Identify and assess key marketing/sales issues and delivery requirements
- Provide data for cross-industry evaluation

EXHIBIT I-1a

Application/Service Type Definitions

Basic Services ("Moore IDS Business Today")

- Variable-image printing or embossed cards plus related mailing services such as stuffing, sealing, metering, sorting and post office delivery

Enhanced Services ("Moore IDS Future Business")

- Basic services, as defined above, when integrated with any value-added front-end or back-end services, typically of information services content (e.g., data base management) but also including other business services (e.g., lock box) and/or
- All-electronic solutions as a replacement for, or supplement to, paper-based business communications (e.g., electronic data interchange)

B

Scope

Agreements between INPUT and Moore IDS regarding the scope of research to be conducted included the utilities market segments shown in Exhibit I-2.

EXHIBIT I-2

Utilities: Research Scope

Market segments covered*
- Electric companies
- Combined gas and electric companies

Size of companies
- Over $1 billion

* Other utility companies (water, sewer, garbage collection) tend to be very local, hence small and judged to be of little market interest.

Though INPUT did discuss and examine the trends in postcard billing, its primary focus was to identify other variable-image mailings. Promotional mailers were identified but are considered outside the scope of this research. Investigating opportunities for an "Omni-bill"—a single consolidated utility bill combining electric, gas, water and waste disposal—was discussed and analyzed prior to interviews and was rejected for economic reasons; there did not seem to be economic justification for the relevant players to pursue this concept. Other barriers included company image and customer control issues.

Financial mailing applications, for example proxies, dividend checks, etc., were considered to be potential opportunities and were included in the interviews.

C Methodology

The methodology used in the utilities market study was similar to that used in the indepth vertical market reports, with the exception that fewer interviews were conducted. The general vertical market questionnaire was used in conducting the interviews, with agreed-upon interviewer prompts and enhancements. See Exhibit I-3.

EXHIBIT I-3

Utilities: Research Methodology

- Information gathering and preparation
- Review and modification of vertical market questionnaires
- Phone meeting with Moore's marketing manager
- Telephone interviews
- Analysis and report writing

Interviews were conducted by contacting the office of the Vice President whose organization was responsible for business mailings and networking to appropriate parties. We found that there was no consistent title for either executive or operational managers responsible for business mailings. In general, mailing operations appeared to be considered a "lower level" operation in most organizations as compared to other functions such as accounting. Most interviews were conducted with mid-level managers in the IS function and mailing services.

Exhibit I-4 gives the interviewing statistics, and Exhibit I-5 presents specific companies contacted.

EXHIBIT I-4

Utilities:
Interviewing Statistics

- Twenty-one were companies contacted
- Appropriate personnel were reached in twelve companies
  - One company refused to participate
  - One requested that the survey be mailed
  - Ten telephone interviews were completed

EXHIBIT I-5

Utilities:
Interviews Conducted

Company	Type	Size ($ Billions)
United Mohawk Power	Gas and electric	1.3
Ohio Power	Electric	1.3
Commonwealth Edison	Gas and electric	5.5
Georgia Power	Electric	3.5
Philadelphia Electric	Electric	3.0
Union Electric	Electric	1.8
Gulf States Utilities	Gas and electric	1.5
S. California Edison	Gas and electric	5.3
Virginia Power	Gas and electric	2.9
Duke Power Company	Electric	3.4

There was remarkable consistency in the ten interviews that were conducted regarding mailing operations. INPUT believes that additional interviews would not influence the conclusions and recommendations significantly.

II

Executive Overview

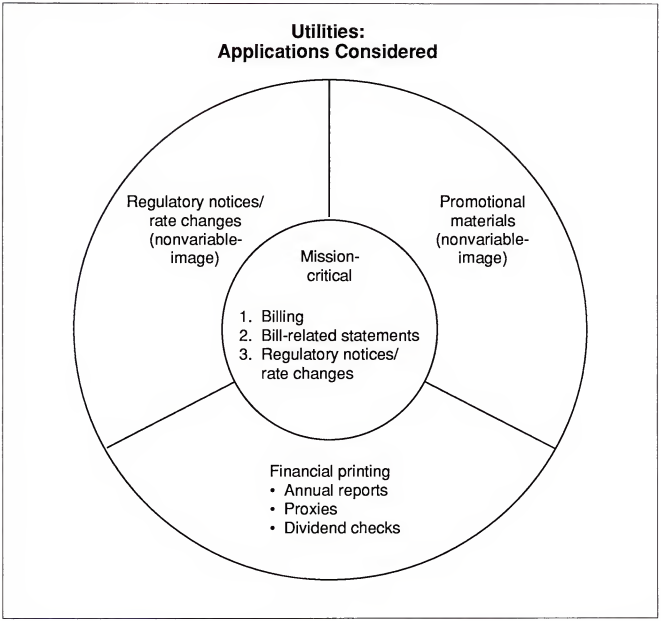
INPUT conducted telephone surveys with managers from ten utilities, evenly split between Electric companies and combined (gas and electric) facilities. The interviews were very consistent. Currently, outsourcing is done for non-mission-critical overflow work and specialty printing (for example, four-color promotional literature), as well as financial applications such as annual reports, proxies, dividend checks, etc. Though many keep regular tabs on outside costs and service options, virtually all respondents opposed outsourcing of mission-critical applications for what appear to be good reasons.

The primary service application in utilities is billing, and it appears unlikely that this application will be outsourced, in spite of a trend away from postcard billing back to stuffed envelopes. Reasons for this include the fact that the majority of utilities have a large installed base of laser printers and mail handling equipment, their operations are already optimized for this application, there are few if any problems in printing and mailing operations, and the application is extremely time-sensitive, which may preclude the use of third parties and remote mailing. A third of the utilities interviewed have union contracts which would prevent or make large-scale outsourcing difficult, and there is always the underlying issue of fear of losing control.

Exhibit II-1 shows the applications considered.

There does appear to be a basic service opportunity in financial mailings, including dividend checks. Roughly half of the companies surveyed currently outsource all or portions of their financial printing. This opportunity seems consistent with Moore IDS' current business, and could be targeted with its existing sales operation and technology.

EXHIBIT II-1


Utilities:
Applications Considered
Regulatory notices/ rate changes (nonvariable-image)
Promotional materials (nonvariable-image)
Mission-critical
1. Billing
2. Bill-related statements
3. Regulatory notices/ rate changes
Financial printing
• Annual reports
• Proxies
• Dividend checks

INPUT was unable to identify any promising enhanced service opportunities in the utility industry. Most of the problems and planned improvements are related to the IS departments and the difficulties of staying on top of and implementing constantly-changing regulations in billing systems. There seems no plausible opportunity for a third party to do a better job here. Future fantasies centered around direct delivery of bills (bypassing the post office), adding segmentation capability to customer data bases (primarily for marketing purposes), and implementing bar code technology, a process which is already underway in the industry as a mail-sorting application.

INPUT has developed a methodology for sizing opportunities and determining their relative attractiveness in order to make comparisons between industries and applications. Exhibits II-2, II-3, II-4, and II-5 present sizing for three basic service applications and their relative attractiveness.

Exhibit II-6 shows major environmental threats and opportunities in the utility market.

EXHIBIT II-2

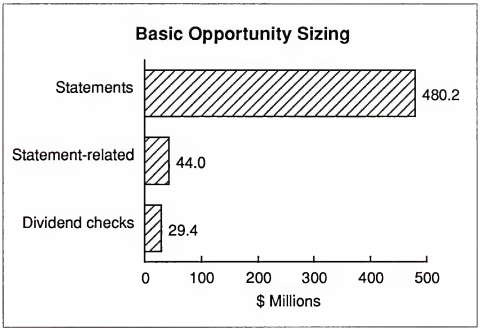


EXHIBIT II-3

Utilities:
Opportunity Size by Target Audience
($ Millions)

Type of Service	Target Audience					
	Owners	Employees	Customers	Suppliers	Internal Efficiency	Total
			Business / Consumer			
A. Basic			Statements (480) Statement-related (44) Dividend checks (29)			
Subtotal			(553)			
B. Enhanced						
Subtotal						
Total			(553)			

EXHIBIT II-4

Utilities:
Relative Attractiveness Ratings of
Basic Service Opportunities

Application opportunity ($ Millions)		Criteria ratings (range: 1 = negative to IDS, 5 = positive)			Overall attractiveness (range: 1 = lowest 125 = highest)
Type	Size	Relative Size X	Willingness to Outsource X	Level of Pain or Problem =	Relative Rating Value
Statements	480.2	3	1	1	3
Statement-related	44.0	1	1	1	1
Financial dividend checks	29.4	1	3	2	6
Total	553.6				10

EXHIBIT II-5

Utilities:
Opportunity Attractiveness Rating by Target Audience

Type of Service	Target Audience					Total
	Owners	Employees	Customers	Suppliers	Internal Efficiency	
			Business / Consumer			
A. Basic			Statement (3) Statement-related (1) Dividend checks (6)			
Subtotal			(10)			
B. Enhanced						
Subtotal						
Total			(10)			

EXHIBIT II-6

Utilities: Environmental Threats and Opportunities

Threats:

- Increasing cost pressures due to financial performance
- Mounting costs and regulatory delays for nuclear power
- Rapidly changing regulatory environment
- Charged public sentiment regarding rates and environmental concerns

Opportunities:

- Cost pressures are driving search for greater efficiency
- Political pressures have created a need for improved consumer communications and education

III

Market Opportunities

Before discussing potential opportunities in more detail, it will be useful to first set the stage by summarizing findings about outsourcing by utilities today, as well as interviewees' attitudes about future outsourcing, their descriptions of problems they now face, and planned improvements.

A

Introduction

Findings about outsourcing were remarkably consistent among the utilities interviewed.

All of the ten companies interviewed outsourced on a regular basis. The majority of outsourcing was for small volume or irregular jobs such as those specialty items shown in Exhibit III-1. For example color promotional stuffers, occasional overflow, or for financial printing and mailing which was done with specialty houses. Only three out of ten companies outsourced financial printing.

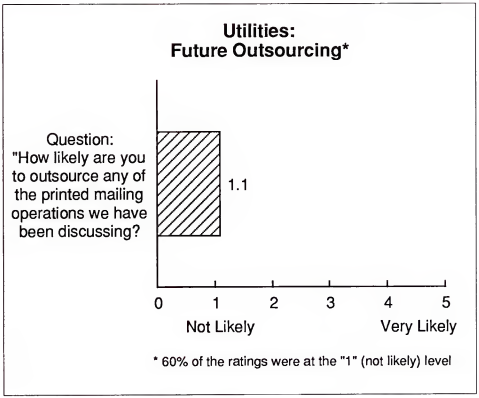
EXHIBIT III-1

Utilities: Outsourcing Today

- Promotional stuffers (nonvariable printing)
- Customer/in-house newsletter
- Annual reports
- Proxies, dividend checks
- Other financial mailings

When questioned about how likely they would be to outsource other main mailing categories such as billing, respondents were not enthusiastic, as shown in Exhibit III-2.

EXHIBIT III-2



The reasons against outsourcing are summarized in Exhibit III-3 and discussed below.

As discussed below, billing represents the major mailing application for utilities and is the administrative lifeblood of the company. In addition, most utilities are under considerable economic pressure to perform more efficiently. For that reason, time sensitivity (eliminating float) and cost pressures are significant issues. Internal mailing operations have been designed and have evolved to handle the large-volume mailings required, and to optimize both time and cost parameters. As one respondent stated,

"We simply can't afford problems in our operation. It all has to work."

Interestingly enough, there were a number of companies (4 of 10) who regularly (at least once a year) compare their internal costs to that of using outside service vendors. However, after further questioning, it appears that these comparisons are used to measure and calibrate internal efficiency and do not represent a genuine interest in outsourcing.

EXHIBIT III-3

Utilities: Reasons Against Future Outsourcing

- The majority (7 of 10) have laser printer technology in place as well as large investments in mail handling and sorting equipment.
- Respondents felt that their in-house operations, particularly printing and mailing, were efficient and cost-effective. No consistent mailing operation problems were mentioned (see below).
- The majority of respondents (6 of 10) mentioned "loss of control" as a key issue.
- Time sensitivity was repeatedly cited as a key issue in all the interviews. Respondents in four companies mentioned potential time loss due to both coordinating outside vendors and possible remote mailing as a concern.
- In-house mailing operations were optimized for their applications. Few felt an outside vendor could do better.
- Union contracts would prohibit large-scale outsourcing (3 of 10 companies).
- There was no interest in facilities management.

Exhibit III-4 presents problems and planned improvements in utility mailing operations.

None of the respondents could identify specific problems in their mailing operations. In general, once bills and other materials are printed, mailing operations which were set up to handle three million plus pieces per month ran smoothly. The problems and bottlenecks identified were primarily in the front end of the operation, the IS department, in all but one case.

EXHIBIT III-4

Utilities:
Mailing Problems and Planned Improvements

Current problems:

- Timely programming changes in response to:
  - Regulatory changes: rates, rate structures, refunds (4 of 10)
- IS problems, such as computer downtime, programming issues, etc. (getting data on a timely basis) (2 of 10)

Planned improvements:

- Better quality control (2 of 10)
- Customer data base segmentation capability (3 of 10)
- Ongoing equipment upgrades (5 of 10) including bar code sorting (to take advantage of postal discounts), improved inserting equipment, high speed laser technology

Most of the utilities surveyed are subject to two or more regulatory agencies. Regulations change continually and are typically time-sensitive. As a result, utilities must continually modify the rate structures and policies built into their accounting systems, and often have to generate refunds and billing adjustments. Making these programming adjustments is a time-critical activity and often causes disruptions. It is conceptually difficult to see how inserting a third-party/outside vendor could solve this problem.

In addition to expected equipment upgrades, a sought-after goal in a number of utilities is the ability to segment their customer data base by type of customer, historical and current usage, and other characteristics, for marketing purposes such as analysis, survey work, special promotions, etc.

B

Application Opportunities

1. Basic Service Opportunities

Exhibit III-5 sets out the basic mailing applications for the utilities surveyed.

EXHIBIT III-5

Utilities:
Basic Mailing Applications

- Customer bills
  - Core mailing applications for all utilities
  - Typically 1-2 pages variable images with return envelopes and stuffers
  - Daily print runs
  - Volumes. 5 to 3.3+ million pieces per month/company
- Bill-related statement
  - Credit documents, requests for deposits, refund checks, vouchers
  - Typically mailed separately from bills
  - Variable-image, one page
  - Run daily as needed
- Regulatory notices/rate changes
  - Nonvariable-image
  - Typically delivered as stuffers to statement
  - Run as needed
- Promotional material
  - For example, updates, newsletters, surveys
  - Typically developed by marketing department
  - Often printed outside
- Financial mailings
  - For example, proxies, dividend checks, shareholder reports
  - Often outsourced to specialty house
  - Run quarterly, annually, etc.

a. Billing and Billing-Related Statements

Bills and related statements are the lifeblood of utility printing and mailing operations. Operations are set up to handle the large volume of mail required and are optimized around the bill-generation process.

Timeliness and cost are key considerations for mail operation decision makers. In all the companies surveyed, respondents appeared satisfied with the working of the operation and had a difficult time identifying specific problems in printing and mail handling. The majority of companies utilize laser printing technology, and the latest handling equipment—Pitney Bowes and Bell & Howell were two suppliers mentioned frequently. A majority of utilities had specific equipment purchase and upgrade plans for the future. Incorporating bar code technology, to enable utilities to take maximum advantage of postal discounts, was mentioned by four of the ten companies as a high-priority item.

There appears to be little opportunity for Moore IDS in the billing and related statement category (see Exhibit III-3). A priori, there is little reason to believe that Moore IDS, which has expertise in providing general mailing solutions, could improve upon an operation whose sole function is to optimize a specific application.

INPUT considered whether or not Moore IDS' expertise in bar code technology would offer a possible opportunity in the utility market. Though it is a desired technology in many cases, we concluded it would be unlikely that bar code technology itself would be sufficient justification to outsource the billing operation—merely inserting Moore IDS in a part of the process would probably not contribute to timeliness, and hence would be unattractive to prospects.

b. Regulatory Notices/Rate Changes

This category of mail is typically nonvariable-image and is delivered as a stuff in billing statements.

c. Promotional Mailings

Promotional mailings were not considered, as per prior discussions between INPUT and Moore IDS.

d. Financial Mailings

The majority of utilities surveyed outsource financial printing and mailing of annual reports, dividend checks, and proxies. INPUT did not explore printing of 1099s and W-2s as per the research plan—it was assumed that Moore IDS already has an understanding of this business. The smaller, private utilities do not, of course, have shareholder communications mailing needs.

Financial printing and mailing do represent a potential basic service opportunity for Moore IDS, but nothing very new or exciting. Moore IDS should be able to use its existing marketing/sales system to pursue these opportunities.

e. Other Considerations

There was a concern that the use of postcard billing might be on the rise due to cost advantages. Only two of the ten companies surveyed used postcard billing. Of these, one was converting back to enclosed statements due to market pressure—desire for confidentiality, use of return envelopes—a key for improving cash flow. Two other companies have switched over to enclosed statements in the last two years. If anything, there is a trend away from postcard billing.

Another trend in billing is towards "blanket billing", a single consolidated bill for companies with multiple locations. Blanket billing is being implemented in the majority of utilities.

2. Enhanced Service Opportunities

a. Overview

Other vertical market studies used outsourcing of front-end/back-end operations and future "fantasies" as jump-off points to develop a list of potential enhanced service opportunities.

In the case of utilities, both outsourcing opportunities and fantasies were extremely thin, the result of the nature of IS (front-end) and probably the lack of problems as fantasy generators.

As discussed above, problems that do occur in mailing operations tend to be in the front end of the system (typically the IS department), primarily due to constantly changing regulations that must be accurately reflected in the billing system on a highly time-sensitive basis, as well as normal computer snafus. It seems unlikely that Moore IDS would find a hook here. First, the IS function is a jealously guarded turf and it's not clear if or how Moore IDS would add value. Second, Moore IDS would have to closely monitor a variety of regulatory agencies in each state, at both the state and federal level. It would be difficult to convice the utilities that a third party could do better what they have been doing for decades.

On the back end, lockbox collection services are common and well established. Utilities also utilize electronic bill-paying, primarily for residential customers, as well as rapid delivery of computer tapes containing transactions to the banking system.

b. Future Fantasies

Unlike managers in some vertical markets, utility interview respondents presented few wild or exciting future fantasies, though there was some consistency in their desires, as shown in Exhibit III-6.

EXHIBIT III-6

Utilities: Future Fantasies

- Direct delivery of bills (4 of 10)
- Implementation of bar code technology (3 of 10)
- Customer data base segmentation capability (2 of 10)
- Miscellaneous: internal cost chargeback system, equipment upgrades, change in management attitude

Of these fantasies, respondents felt that bar code technology was within reach and would be implemented in the near future.

As discussed above, bar coding is a possible hook for Moore IDS to open discussions with utilities, but it is unlikely to be a compelling enough argument to result in companies outsourcing their billing operations.

Customer data base segmentation might be considered another potential opportunity for Moore IDS. Utilities, particularly their marketing departments, would like the ability to segment and examine their customer base in a variety of ways.

Segmentation capability would provide this and also allow utilities to do targeted promotional mailings, surveys, etc. The problem and the opportunity is primarily one of IS resources, and not printing per se. Note also that potential segmentation mailings discussed by respondents were class- or category-variable and not necessarily variable on a per-piece image.

In summary, the interviews did not uncover any significant enhanced service opportunities in the utilities market.

C

Application/Service Opportunity Sizing and Ratings

Exhibits III-7 and III-8 present the sizing of basic service applications, using the methodology that was developed by INPUT in previous vertical market studies.

EXHIBIT III-7

Utilities: Basic Service Sizing—Numeric

Application	1989 Est. Units (Millions)	Cost/Unit	1989 Est. Size ($ Millions)
Bill statements	1,400	0.343	480.2
Billing-related statements			
- Credit vouchers			
- Requests for deposits	220	0.20	44.0
Financial	105	0.28	29.4
- Dividend checks			

EXHIBIT III-8

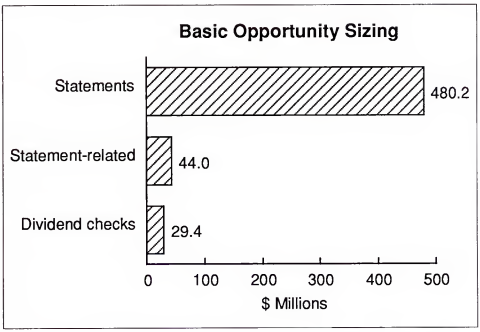


Exhibit III-9 presents a relative attractiveness rating using the rating methodology previously developed by INPUT.

EXHIBIT III-9

Utilities:
Relative Attractiveness Ratings of
Basic Service Opportunities

Application opportunity ($ Millions)		Criteria ratings (range: 1 = negative to IDS, 5 = positive)			Overall attractiveness (range: 1 = lowest 125 = highest)
Type	Size	Relative Size X	Willingness to Outsource X	Level of Pain or Problem =	Relative Rating Value
Bills	$480.2	3	1	1	3
Bill-related	$44.0	1	1	1	1
Financial dividend checks	$29.4	1	3	2	6

Financial printing, for example dividend checks and other variable-image material, appears to be the leading opportunity, and is very similar to Moore IDS's current 1099/W-2 business. This opportunity can likely be pursued with Moore's existing sales operation and would not, to our knowledge, require new investments in technology.